



Sheila Brown  
*Chief Financial Officer*

**TO:** Audit Committee

**SPONSOR:** Sheila Brown

**CONTACT INFO:** 416-978-2065, [sheila.brown@utoronto.ca](mailto:sheila.brown@utoronto.ca)

**DATE:** April 19, 2013 for April 29, 2013

**AGENDA ITEM:**

**ITEM IDENTIFICATION:**

Policy on Use of External Auditor for Non-Audit Services

**JURISDICTIONAL INFORMATION:**

The Governing Council approves the appointment of the external auditor on the recommendation of the Business Board and Audit Committee.

**PREVIOUS ACTION TAKEN:**

Business Board approved the Policy on User of the External Auditor for Non-Audit Services on May 3, 2006.

The Audit Committee receives an annual report from the external auditor regarding non-audit services provided by the external auditor.

**HIGHLIGHTS:**

Attached are the policy together with its green sheet from the March 22, 2006 meeting of the Audit Committee, which provided background to the policy submission at the time. Also attached is Appendix C – Supplementary schedule of fees, October 1, 2009 – September 30, 2012 which was reviewed by the audit committee at its December 4, 2012 meeting.

The policy is being provided to the Audit Committee at this time for discussion and feedback on any changes that the Committee would like to have considered.

Please note that external auditors are required to comply with auditor independence rules as set forth in Rule 204 in the Rules of Professional Conduct issued by the Institute of Chartered Accountants of Ontario. The most recent revision to the independence rules in the Rules of Professional Conduct was February 2011.

**FINANCIAL AND/OR PLANNING IMPLICATIONS:**

-

**RECOMMENDATION:**

-



# University of Toronto

---

## BUSINESS AFFAIRS

TO: Audit Committee

SPONSOR: Sheila Brown

CONTACT INFO: 416-978-2065, sheila.brown@utoronto.ca

DATE: March 13, 2006 for March 22, 2006

AGENDA ITEM:

### ITEM IDENTIFICATION:

Policy on Use of the External Auditor for Non-Audit Services

### JURISDICTIONAL INFORMATION:

The Governing Council approves the appointment of the external auditor on the recommendation of the Business Board and Audit Committee.

### PREVIOUS ACTION TAKEN:

Governing Council approved the appointment of Ernst & Young as the external auditor for the fiscal year ended April 30, 2006 at its meeting of June 29, 2005.

The Audit Committee reviewed the external auditor's engagement letter and plan, including a report on non-audit services provided by the external auditor, at its meeting of November 23, 2005.

The Audit Committee receives an annual report from the external auditor regarding non-audit services provided by the external auditor.

### HIGHLIGHTS:

In the United States, the Sarbanes-Oxley Act of 2002, which applies to Securities and Exchange Commission registrants, prohibits public accounting firms from performing certain non-audit services to financial statement audit clients.

Sarbanes-Oxley is not applicable to U.S. universities. However, on November 20, 2003, the National Association of College and University Business Officers (NACUBO), published an advisory report in which it provided emerging best practice guidance for higher education institutions. (There is no similar guidance for Canadian universities.)

The NACUBO report of November 20, 2003 noted the following Sarbanes-Oxley prohibitions (Title II, 201):

- 1) Bookkeeping or other services related to the accounting records or financial statements;
- 2) Financial system design and implementation;
- 3) Appraisal or valuation services, fairness opinions or contribution-in-kind reports;
- 4) Actuarial services;
- 5) Internal auditing outsourcing services;
- 6) Management or human resource functions;
- 7) Broker or dealer, investment advisor, or investment banking services;
- 8) Legal services and expert services unrelated to the audit;
- 9) Any other service the Accounting Oversight Board determines, by regulation, is impermissible.

The NACUBO report further noted that Sarbanes-Oxley specifies that “a registered public accounting firm may engage in any other service, including tax services for an audit client, but only if the Audit Committee approves the activity in advance.”

NACUBO’s advice for U.S. universities was as follows:

“It believes that institutions of higher education should look at the Sarbanes-Oxley Act as a framework to help evaluate overall financial risks and not simply comply with accountability concepts that stem from structures and circumstances that differ fundamentally from the stewardship responsibilities and public obligations they face.”

In the area of non-audit services, NACUBO recommended that “institutions should prohibit their independent auditors from providing the non-audit services prohibited by the Act unless extenuating circumstances exist and the audit committee approves the work in advance”.

In Canada recent legislation for publicly listed companies (Multilateral Instrument 52-110 for Ontario Securities registrants) requires that the Audit committee pre-approve all non-audit services provided by the external auditors of the organization.

At this time, this is not a requirement for organizations that are not OSC registrants. While the University of Toronto Asset Management Corporation is registered with the OSC, this registration does not apply to the University of Toronto as a whole.

In Canada, external audit firms are also required by the Canadian Institute for Chartered Accountants (CICA) to comply with the new Canadian Independence Standard which provides additional comfort beyond that contemplated by NACUBO when it prepared its guidance. The Guide to the New Canadian Independence Standard include the following prohibitions with respect to non-audit services with respect to audits of public companies only:

- “5. Members and firms may not provide:
- bookkeeping and accounting services;
  - financial information systems design and implementation;
  - actuarial services;

- valuation services;
- internal audit services;

unless it is reasonable to conclude that the results of the services will not be subject to audit procedures.

6. Members and firms may not provide the following services, even if not subject to audit:

- expert services including litigation support;
- legal services;
- management functions;
- human resources services;
- corporate financial services.”

While this section of the standard does not apply to the non-public sector, it is very similar to Sarbanes-Oxley, with which NACUBO has concurred as best practice for U.S. universities, as noted above. It provides the best practices standard that the accounting profession requires our external auditor to use in determining whether they can accept individual assignments for their public clients. While these standards for public companies are more restrictive than for non-public companies, the external auditor may choose to apply some or all of the more restrictive standards to their non-public clients. We intend to use the more restrictive public sector Canadian standards to formulate our policy. The full Guide to the New Canadian Independence Standard is attached as Appendix B for the information of Audit Committee members.

The policy, attached as Appendix A, delegates to the Chair of the Audit Committee the authority for the approval of non-audit services. The chair has the authority to 1) approve the service, 2) consult with the Audit Committee before approving the service, or 3) refer the service to the Audit Committee to recommend to the Business Board and Governing Council for approval.

The policy also delegates to the Chief Financial Officer the authority to engage the external auditor, up to \$250,000 per assignment, for specific categories of pre-approved non-audit services – tax consultation, participation in the risk assessment process, professional services regarding advice on accounting for individual transactions and professional services regarding advice on financial statement disclosures.

The Audit Committee will continue to receive an annual report from the external auditor on the non-audit services.

#### **FINANCIAL AND/OR PLANNING IMPLICATIONS:**

-

#### **RECOMMENDATION:**

It is recommended that the Audit Committee recommend the policy on the use of external auditor for non-audit matters, attached as Appendix A, to the Business Board for approval.

# Appendix A

## Policy on Use of the External Auditor for Non-Audit Services

### Purpose

The Governing Council approves the appointment of the University's external auditor upon the recommendation of the Business Board and the Audit Committee. The Audit Committee is responsible to ensure that the objectivity and independence of the external auditor is maintained while providing non-audit services. The primary role of the external auditor is to perform audits for the University of Toronto for which an audit opinion is issued.

The external auditor is bound by the independence rules promulgated by the Canadian Institute of Chartered Accountants, effective January 1, 2004, and published in the *Guide to New Canadian Independence Standard*.

A non-audit service is defined as a service for which an external audit opinion is not issued and for which an additional fee is charged.

The purpose of this policy is to articulate the authorities for engaging the external auditor for non-audit services.

### Policy

1. The University will not engage its external auditor to carry out any prohibited services as determined by the Canadian Institute of Chartered Accountants.
2. The external auditor may refuse any assignment that it deems to be an infringement of its independence without negative consequence.
3. The Governing Council delegates to the Chair of the Audit Committee the authority to approve the engagement of the external auditor for non-audit services.
4. The Chair of the Audit Committee has the authority 1) to approve the non-audit service or 2) to consult with the full Audit Committee before making a decision, or 3) to refer it to the Audit Committee to recommend approval to the Business Board and Governing Council.
5. The Governing Council delegates to the Chief Financial Officer the authority to engage the external auditor for the following pre-approved routine non-audit services up to \$250,000 per assignment:
  - a. All tax matters, including, but not limited to income tax, retirement planning, sales taxes, commodity taxes, business taxes, real estate taxes,

land transfer taxes, issuance of charitable receipts and assessments of the broad-based tax implications for individual transactions.

- b. External auditor participation in the risk assessment process.
  - c. Professional services with respect to advice on the accounting for individual transactions (e.g. real estate acquisitions) or categories of transactions (e.g. employee future benefits).
  - d. Professional services with respect to advice on financial statement note disclosures (e.g. Ontario Student Opportunity Trust Fund disclosures).
6. The Chief Financial Officer can delegate his or her authority to other members of the administration, as appropriate to engage the external auditor for pre-approved non-audit services within their area of responsibility (e.g. income tax consulting delegation to Human Resources).
  7. The Audit Committee receives an annual report from the external auditor which lists all non-audit services performed by the external auditor.
  8. This policy becomes effective May 1, 2006.

Sheila Brown  
Chief Financial Officer  
February 20, 2006

## Appendix C: Supplementary schedule of fees October 1, 2009-September 30, 2012

	October 1, 2011 To September 30, 2012 \$	October 1, 2010 To September 30, 2011 \$	October 1, 2009 To September 30, 2010 \$
<b>Accounting and Auditing Matters</b>			
• Professional services related to the valuation of land in connection with transition to Part III of the CICA Handbook	30,000		
• Assistance with various accounting issues and additional procedures related to the audit	4,250		
• Research and discussions re: A133 government audits		2,500	
• Assistance with IFRS diagnostic related to UTAM		4,800	
<b>SUB-TOTAL</b>	<u>34,250</u>	<u>7,300</u>	
<b>Tax Matters</b>			
• HST services related to certain capital expenditures and transactions related to the Pan Am Games	106,272		
• Advice in connection with HST application to research grants and payment	11,800		
• Advice related to the implementation of HST		64,350	16,206
• Advice related to the recovery of ORST for certain food costs		284,211	198,912
• Advice related to the recovery of ORST for certain printed matter		82,469	85,113
• Advice related to the recovery of ORST for certain construction projects	17,322		
• Preparation of U.S. federal and state tax returns for U of T and the U of T Pension Plan	9,000	9,000	
• Assistance including gathering information on pension plan details, research and drafting letter re: HST	39,988	6,500	
• Recovery of PST on Hart House prepared meals		7,530	
• Advice in connection with the filing of section 211 elections and GST recoveries	147,051	11,286	
• Commodity tax services in connection with the Faculty of Medicine web CV website			7,326
• Commodity tax services in connection with Faculty of Medicine salary arrangements			31,108
• Advice in connection with PST/GST refundable in respect of Internal sales made by Hart House			33,483
• Commodity tax services rendered in connection with certain capital expenditures at the Mississauga and Scarborough campuses related to elections under the ETA.			
• Advice in connection with a recovery of GST for the Central Steam Plant			18,315
• Advice in connection with the application of the GST to real property transactions			6,272
• Preparation of U.S. Federal and New York State tax returns and extension request for University of Toronto for the taxation year ended April 30, 2007 to June 30, 2009			8,325
<b>SUB-TOTAL</b>	<u>331,433</u>	<u>465,346</u>	<u>423,542</u>
<b>Other</b>			
• Review of Hart House's ticket processing controls			13,223
• Services related to preparation of financing and procurement options assessment for UTSC			13,223
<b>TOTAL FEES</b>	<u>365,683</u>	<u>472,646</u>	<u>436,765</u>